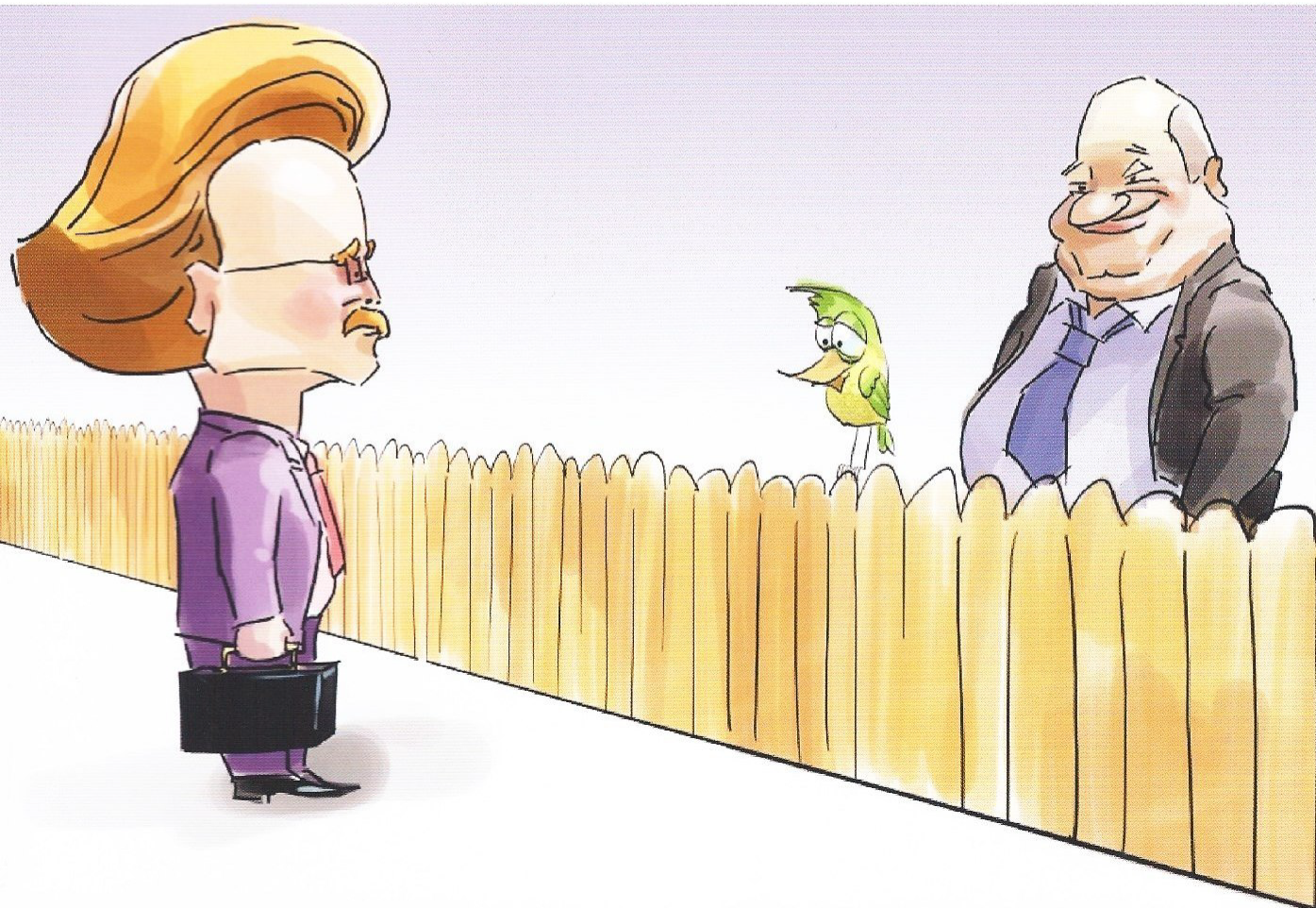


OVER THE HEDGE

DOING BUSINESS IN BELARUS AND POLAND



STARTING YOUR OWN BUSINESS: FOUR COMMANDMENTS TO ACHIEVE SUCCESS IN POLAND AND BELARUS

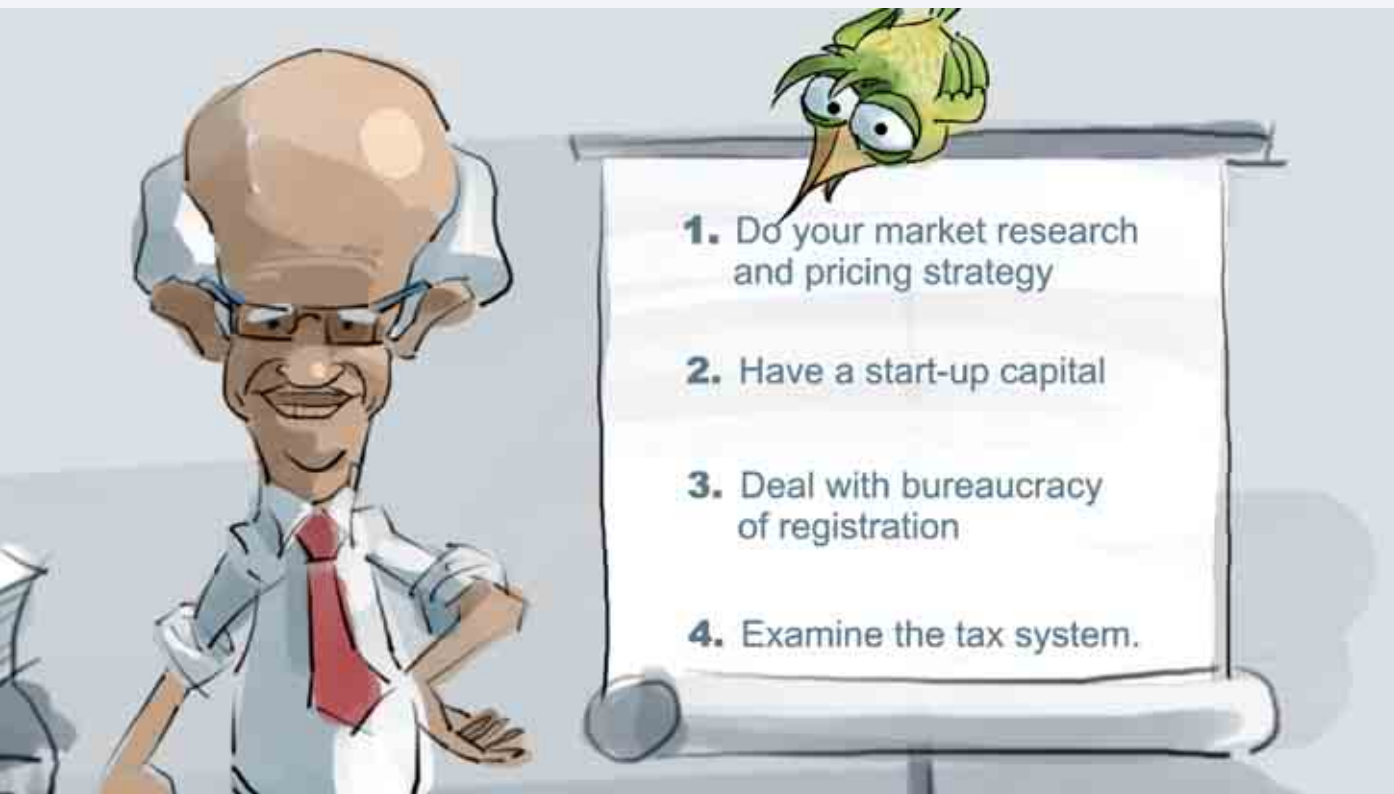
Previous issues of “Over the Hedge” have discussed and compared the overall living conditions in Belarus and Lithuania and the state of civil society in the two countries. This issue addresses the question that has become particularly important in the aftermath of the global economic downturn – the conditions for doing business in different countries. This issue compares business conditions in Belarus and Poland and seeks to reveal the paradoxes of everyday business practices.

The global financial crisis has not only destabilised many of the world's largest financial institutions. The effects of the economic downturn were severe at the individual level all around the world as well: wages decreased, social benefits were cut, the prices rose and the fear for losing one's job became omnipresent. Governments in most countries considered that encouraging establishment and development of small and medium size enterprises (SMEs) is key to recovery of both national and global economies. The rationale behind it is clear – SMEs help to fight unemploy-

ment and to decrease government spending on social benefits through job creation. SMEs are flexible enough to find their niche even in devastated economies where levels of consumption are extremely low, moreover, self-employed personnel tends to maximise productivity. In addition, starting your own business comes with a lot of personal motivation: being your own boss, working for your own self-realisation, creating something one's children could inherit and develop further as a family business.

This issue of “Over the Hedge” analyses a list of universal commandments for a successful start-up of a private business. However, a comparison between Belarus and Poland provided below reveals that the universal business practices are in fact not necessarily universally applicable. Implementing the four commandments into practice can sometimes lead to ridiculous situations in specific contexts. Therefore, the main question this issue discusses is: Which is a better place for starting a business: Poland or Belarus?





- 1.** Do your market research and pricing strategy
- 2.** Have a start-up capital
- 3.** Deal with bureaucracy of registration
- 4.** Examine the tax system.



FOUR COMMANDMENTS FOR STARTING A BUSINESS

Usually, business environment in various countries is compared by using aggregated rankings and indexes. This can be illustrative in some cases and it can prove useful for

analysts and politicians to make their argument. The table below shows how such comparisons are being conducted.

Ranking/Index/Indicator	Belarus	Poland	Conclusion
Index of Economic Freedom World Rankings by the Heritage Foundation 2009	167 out of 183 countries	82 out of 183 countries	Belarus is one of the most regulated economies in the world.
Global Competitiveness Index ¹ 2009-2010	87 out of 133 countries	46 out of 133 countries	In global terms, production and services in Poland have much more potential than those in Belarus.
Doing Business 2010 by the International Bank for Reconstruction and Development/ The World Bank	58 out of 183 countries	72 out of 183 countries	Wow, despite the market being over-regulated in Belarus, doing business is far easier there than in Poland!

The generalised indexes are difficult to argue with, they are calculated by analysts and experts using sophisticated and transparent methodologies. However, they also reveal very little about the everyday course of business in different countries.

Some of them even “forget” to include some variables because such practices are not common in the countries where the indexes are calculated. This publication aims at looking beyond these indexes and trying to discover what is underneath them.

¹The Global Competitiveness Index, published by the World Economic Forum, does not include Belarus. However, the Mises Research Center (Belarus, 2010) has gathered its own data and has applied the same ranking method to rank Belarus.





FIRST COMMANDMENT: DO YOUR MARKET RESEARCH

This commandment is related to a very simple business principle: not every attempt to produce certain goods or provide certain services is blessed with success and interest from a sufficient number of consumers. The first and foremost thing to clarify before even starting to do anything is: Will there be people who would buy what you sell?

Doing a market research in market economies includes asking and answering the following questions:

1. Who will your consumer be: Housewives? Businessmen? Schoolchildren?
2. How many others are trying to sell the same thing you will be selling? At what prices? To put in other words, what does the balance between the market demand and supply look like?

3. Are the products or services you are going to provide going to be significantly cheaper than those already on the market? Or of significantly new and better quality? How difficult will it be to keep the price low and the quality high?
4. What will make your product special?

This is exactly the moment when the comparison between Poland and Belarus begins to be interesting. While potential entrepreneurs in Poland do their market research, potential entrepreneurs in Belarus must pursue a research that is more likely to be called a “search for a market”, despite all the government talks about recent economic liberalisation.



BELARUS



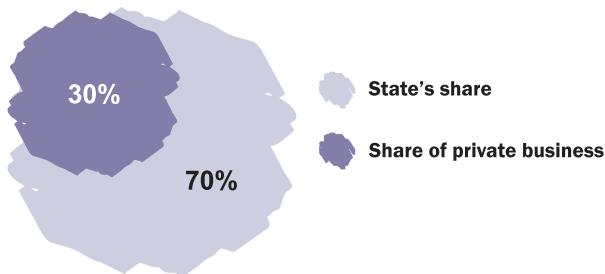
BELARUS: IS THERE A MARKET TO RESEARCH?

To answer the question above first of all it is necessary to estimate how much of a country's economy is run by private business. This size estimates the area where real competition can take place and real profits can be made. Why? If certain goods and services are provided by government-run enterprises, no private company will ever be able to compete with them. This does not necessarily mean that private companies are officially prohibited from such competition. This means that the state simply has more resources to subsidise its own companies, provide better conditions, tax exemptions, etc. Besides, a state-run company must not

necessarily be profitable. Therefore it is important to ask how much of the economy is not dominated by the government.

The role of the state in an economy can be measured by the share of the public sector in formation of the GDP. In Belarus, the share of public sector (public institutions, state run companies, etc.) amounts to 70% while the same indicator for Poland is 25%. Even though a half of the society works in private sector in Belarus, it is the state that controls almost all large and medium enterprises².

Share of the government in the economy in Belarus (share of the GDP)



Share of the government in the economy in Poland (share of the GDP)



²Aleś Alachnovič, Recent Evolutions in the Belarusian Economic System. Center for Social and Economic Research, Belarus, 2010. <<http://www.case.com.pl/dyn/plik--29062166.pdf>>.



POLAND



What does this mean to a future private business owner? On the one hand one must take into consideration that state run companies can be easily outrun by private business in terms of quality of production and services. On the other hand, however, state-run companies can afford keeping the prices of their production practically at the prime cost. Moreover, other (administrational) barriers could be easily used to prevent private sector from entering certain fields of the market. This means the private business owner definitely be limited in choosing the area where his/hers new business can operate. As most of the economic niches are already occupied by state run companies, the areas left are highly competitive.

One need not lose hope just yet. The free market area in Belarus is small, but it is still present. Let us now investigate the prices. Potential businessmen in Poland have to estimate the future prices by investigating how much consumers are willing to pay for certain services and goods. In some cases, people are willing to pay significantly more than the costs of

providing certain goods or services are. This means that one can have high profits and entering the market can be easy as the new business can set lower prices than the average price on the market. All that without suffering a loss!

It could be the case in Belarus as well, but it is not. Not because the fierce competition has forced the entrepreneurs to keep their prices low, but because the state controls them. This means that most businesses already operate under conditions when their profits are so low that they cannot afford much investment into the quality of their production, qualification of their personnel, etc. And a newly established business will not be able to do so either.

This does not mean that the state does not impose any price regulation in Poland. However, in Poland it is not difficult for a business to avoid sectors which operate under government-regulated pricing. Generally, because there are not that many such sectors altogether.





GOVERNMENT PRICE CONTROL: POLAND AND BELARUS

Price regulation in Poland ³	Price regulation in Belarus ⁴
<ol style="list-style-type: none">1. Individuals are free to determine prices for goods and services they sell except for the areas described in the bullet point below.2. The government regulates the prices of pharmaceuticals and medical materials that are covered by health insurance.3. The government has the right to interfere with the prices of energy resources.	<ol style="list-style-type: none">1. Price regulations apply to business entities which manufacture, sell goods or render services in Belarus (including importers). Bullet points below enlist some of such regulations.2. The government sets maximum norm for profitability for entities that hold dominant position in the market. Maximum norm of profitability is 15 % on dairy products, bread and bakery; 35 % on light industry goods; 10 % on meat and meat products, etc.3. Importer's profit cannot exceed 30% of the products value.4. Maximum wholesale mark-up on goods that are not self-manufactured is 20%.5. The government can directly reduce the prices of the following so-called socially important goods, even if prices already comply with above mentioned regulation already: meat, chicken, milk in tetra pack, cream, sugar, sealed fruit, berries, vegetables, bread and bakery, fish and fish products, tinned fish, citrus plants, bananas, sunflower seed oil, etc.6. Price regulations do not apply to sales of motor vehicles, motor vehicle oil, fabrics, perfume, jewellery, soap, audio and video recordings and some other types of goods.

³ International Tax and Business Guide: Connecting You to Worldwide Information. Poland. Deloitte, May 2008.

⁴ < http://www.deloitte.com/assets/Dcom-Global/Local%20Assets/Documents/dtt_tax_guide_poland.pdf >

Belarus: Pricing Regulation. Raidla Lejins & Norcous, 2009. < www.rln.lt/download.php/fileid/380 >.





How much trouble does excessive price and other types of regulation cause? 27.9 % of the Belarusian SME owners find price regulation a problem, 24.9 % see wage

regulation as an obstacle for business development and one third claim they suffer from inequality with respect to state run enterprises.

COMPLEXITY OF CERTAIN ELEMENTS OF THE REGULATION OF SME ACTIVITY (%)⁵

Problems	“This is not a problem”	“Rather not a problem”	“Neutral”	“Rather a problem”	“This is a very serious problem”
Price regulation	8.4	23.9	39.8	18.3	9.6
Wage regulation	14.2	27.3	33.6	19.0	5.9
Unequal conditions for conducting business compared to public sector companies	16.2	27.7	23.7	20.9	11.5

⁵Anastasiya Glambotskaya, Elena Rakova, Regulatory Barriers for SMEs in Belarus: The Role of Price Regulation. German Economic Team in Belarus, 2007. <<http://pdc.ceu.hu/archive/00003770/>>.





SECOND COMMANDMENT: GET THE MONEY TO START-UP YOUR BUSINESS

Despite all the difficulties, the Belarusian market is still considered to be a lucrative market by many foreign investors. This means, that despite the lack of basic market freedoms a business can still be profitable in Belarus. Therefore, it is necessary to address the next step that cannot be avoided when starting one's business, i. e. initial investment. There are always costs related to starting a business ranging from paying registration fees to buying or renting equipment and business premises, not to mention hiring personnel that will have to be paid their first wages probably much earlier than the first profits hit your bank account. There usually are two ways to finance the start-up of your

business: using your personal savings or taking a credit. The latter is the usual practice in most countries. Therefore, it is important to compare the crediting conditions in Belarus and Poland.

When analysing business lending in Belarus and Poland, one gets a mixed feeling. International Doing Business report estimates that technical conditions for receiving a credit are significantly more favourable in Poland. Poland has a ranking of 15 (meaning, it is one of the best countries in the world to receive a credit), Belarus, meanwhile, ranks at 113⁶. A far worse position.

⁶ Doing Business. World Bank Group: Economy Rankings 2010. <<http://www.doingbusiness.org/economyrankings/>>



I don't think getting a credit is too complicated in Belarus. It could get much worse.



Opinion surveys reveal an interesting picture, however. The Polish entrepreneurs are still relatively unhappy about the crediting conditions, whereas their Belarusian counterparts seem to show endless

patience when it comes to receiving a loan. Yet, the objective truth seems to be reflected in these results as well – the Belarusians indicate access to finance as a major constraint more often⁷.

Proposition	Agree % Belarus	Agree % Poland
Firms Using Banks to Finance Investments	35.82	40.68
Firms Identifying Access to Finance as a Major Constraint	32.74	22.01

⁷ Doing Business. World Bank Group: Enterprise Surveys Snapshot (Belarus 2008/Poland 2009).
<<http://www.enterprisesurveys.org/ExploreEconomies/?economyid=19&year=2008>>





THIRD COMMANDMENT: GET ALL THE NECESSARY LICENSES AND PERMITS

Getting registered is a natural next step once one has decided to start a business and has secured a credit to cover initial investment. This section compares the ease of starting a

business in Belarus and Poland in terms of how many days it takes to register a business venue and how many steps are needed to start operating⁸.

Proposition	Belarus	Poland
Procedures to register a business (number)	5	6
Time (days)	6	32
Dealing with construction permits (days)	161	308
Dealing with construction permits (number of procedures)	15	30
Registering property (days)	18	197
Registering property (number of procedures)	3	6
Companies expected to pay informal payment to public officials (to get things done)	13.53%	4.95%
Companies expected to give gifts to get an operating license	11.69%	1.42%

⁸ Doing Business. World Bank Group: Enterprise Surveys Snapshot (Belarus 2008/Poland 2009).
<<http://www.enterprisesurveys.org/ExploreEconomies/?economyid=19&year=2008>>





Belarus is clearly a winner in the category of dealing with formalities of starting a business. Nevertheless, one out of ten Belarusian entrepreneurs indicate that things get done sooner and smoother if a “small gift” (a bribe) is presented to the responsible officials. This is not the case in Poland.

Polish businessmen, however, have it easier when it comes to making their business international in terms of import and export. This is probably related to the EU membership.

Proposition	Belarus	Poland
Documents to export (number)	8	5
Time to export (days)	16	17
Cost to export (US\$ per container)	1772	884
Documents to import (number)	8	5
Time to import (days)	21	25
Cost to import (US\$ per container)	1770	884





FOURTH COMMANDMENT: GET YOURSELF A GOOD ACCOUNTANT (AND SOME MORE MONEY OR ACQUAINTANCES)

Taxes are the eternally unpleasant side of any profits. Amount of taxes determines your profits, the wages your employees receive, the size of re-investment and the possibilities of growth for your business. Sometimes the procedures of paying taxes take up too much time and personnel while clarifying financial relations with the state; it also determines how transparently a business operates. The clumsier the tax system, the larger corruption and shadow economy.

Once a business starts operating, a good accountant is a businessman's best friend. It takes time for dealing with taxes and other bureaucratic regulations to become a well-established routine. Post-soviet experience, however, suggests that in many cases only a good accountant may not be enough as tax collecting and auditing procedures are not necessarily transparent. Therefore, this section also takes into account the “grey zone” of paying taxes in Belarus and Poland.





When going through the opinion of business people on the national tax and tax administration systems, the evaluations of Belarusian and Polish entrepreneurs are

similar: around 60% of the business communities consider tax rates and administration a major constraint for business.

Proposition ⁹	Belarus	Poland
Firms identifying tax rates as major constraint	62.33 %	58.52 %
Firms identifying tax administration as major constraint	23.96 %	26.51 %

However, when one turns to tax paying reality on the ground, clearly, the Polish businessmen are in a significantly better situation, even though they tend to complain just as much as the Belarusian ones.

Administering taxes is a time-consuming exercise. On average, accounting takes 165 days a year in Poland. However, the amount of accounting that needs to be done in Belarus is still even more impressive – 285 days a year. What are the reasons for this?

	Belarus	Poland ¹⁰
Amount of days annually spent on accounting for the state purposes	285 (71 % of the calendar year)	165 (45 % of the calendar year)
Tax payments (number per year)	107	40

⁹Doing Business. World Bank Group: Enterprise Surveys Snapshot (Belarus 2008/Poland 2009).
<<http://www.enterprisesurveys.org/ExploreEconomies/?economyid=19&year=2008>>

¹⁰Own data produced by the Mises Research Center, Belarus, 2009.





Tax payments must be submitted practically every third day of the year in Belarus, that is more than double the number of tax payments in Poland. It is difficult to explain why such a complicated accounting system has been installed in Belarus. However, surprisingly less than a fourth of Belarusian enterprises acknowledge this system to be overly complicated and unfavourable. To compare with Poland, Polish businessmen

are severely dissatisfied with administration of half as many payments.

It is not only the difficult administration that should be disturbing business in Belarus but also the rates. Total tax rate in Belarus is more than twice higher than total tax rate in Poland and reaches an unthinkable rate of 99.7 % off a firm's profit.

Proposition ¹¹	Belarus	Poland
Profit tax	20.1 %	17.3 %
Labour tax and contributions	39.6 %	21.9 %
Other taxes	40.0 %	3.3 %
Total tax rate (% profit)	99.7 %	42.5 %

How do companies survive when they have to pay nearly 100% of their profits to the state? Moreover, how do they survive when the profits are capped by the government

through price regulation and price calculation methodologies? Is bribery an appropriate method to avoid taxes and reporting?

¹¹ Doing Business. World Bank Group: Economy Rankings 2010. <<http://www.doingbusiness.org/economyrankings/>>





Proposition ¹²	Belarus	Poland
Companies expected to give gifts in meetings with tax officials	6.35 %	4.82 %
Companies identifying corruption as a major constraint	30.66 %	24.07 %

The opinion surveys indicate the answers to the propositions above are negative. The percentage of respondents who indicated that bribing a tax official is a usual practice is relatively low in both Belarus and Poland. Corruption has, however, been indicated as a major constraint by nearly one third of all businessmen. Nevertheless, it is difficult to detect what they mean by this statement. Do entrepreneurs think that other companies exercise excessive bribery while they themselves refrain from doing so? Or do they mean that corruption thrives at the upper

levels of government and, thus, results in state-controlled monopolies controlling most of the Belarusian market?

A partly legitimised “shadow” economy is the only feasible explanation because no business could survive a tax rate of over 99% and low demand for bribery amongst tax collecting authorities. This implies that the government unofficially allows business to commit tax fraud on daily basis. But what are the reasons for this?

¹²Doing Business. World Bank Group: Enterprise Surveys Snapshot (Belarus 2008/Poland 2009).
<<http://www.enterprisesurveys.org/ExploreEconomies/?economyid=19&year=2008>>





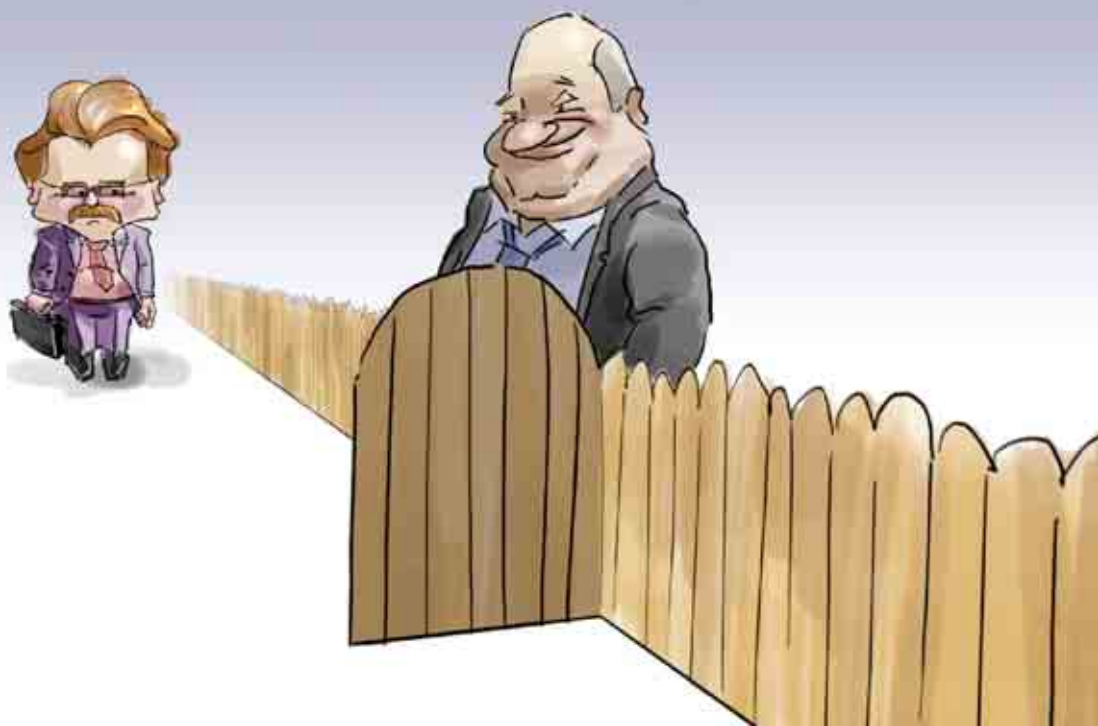
	Belarus	Poland
Estimated volume of shadow economy (2005) ¹³	50.8 % of the official GDP	27.3 % of the official GDP

Partly legalised massive tax fraud is within nobody's interests. Firstly, it means stealing from the government and the society in general. Secondly, it makes businesses vulnerable to inspections and sanctions. Could this be yet another means of control by the government? In certain situations a political decision could be issued to audit a certain company, which then might lead to a

closure. But these are again mere speculations as a definite answer is difficult to provide. One way or the other, such a situation is not thinkable in today's Poland. It does not mean that there is no shadow economy or no corruption, but it means that the government does not accept any of these practices as legitimate on any terms.

¹³Friedrich Schneider, Shadow Economies and Corruption All Over the World: New Estimates for 145 Countries. Economics, No. 2007-9. July 24, 2007. < <http://www.economics-ejournal.org/economics/journalarticles/2007-9>>





INSTEAD OF A CONCLUSION

It is not easy to provide an unambiguous conclusion on business prospects in Poland and Belarus. On the one hand, the Polish market does seem to be an over-saturated market and entering it may be extremely difficult due to heavy competition, prolonged business registration procedures and tax rates that are indeed not particularly favourable when compared to some other European countries. The competition in the market has probably in many cases set the prices at a much lower level than any government intervention would ever dare to. Moreover, consumers are demanding in terms of quality of production and services. On the other hand, when starting a business in Poland entrepreneurs can at least be sure

that the same regulations will more or less apply to every other business in the market. They need not worry too much about what the government thinks about their political values or nationality. Moreover, as Poland managed to avoid many of the misfortunes of the global economic downturn one need not worry about any unexpected economic decisions the government might undertake such as nationalisation or other inappropriate economic measures. Poland remains a steadily growing economy, business is protected by law in Poland and the regulations leave enough room for private capital to operate even if that means a lot competition.





Whereas in Belarus the “post-soviet business ethics” still apply. Starting business in Belarus could indeed be very profitable as private business sector is still largely underdeveloped and simplified procedures for starting a business seem very inviting. However, it may seem that legal regulations in Belarus could turn every entrepreneur into somewhat close to a criminal because private business is not fully protected by law in Belarus. Moreover, law is what every private business is forced to bypass on daily basis in order to survive. Various inspections can thus hit any business enterprise at any time if the “right persons” do not receive their “regular share” of the profits or simply because the

government fails to collect the state budget at times, or for no real reason at all. Moreover, even if profits may still be tempting the public opinion will judge any successful entrepreneur as a corrupt person immediately because everyone is perfectly aware of the local “business ethics”.

Is any generalisation at all possible under these conditions? Perhaps one can only say that doing business in Poland takes a stubborn, innovative and patient personality, whereas doing business in Belarus takes a crafty adventurer. But then again, should not every businessman be a little bit of both?



